

## Message Text

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51

ORIGIN OPIC-06

INFO OCT-01 EA-10 ISO-00 EB-07 AID-05 /029 R

66607

DRAFTED BY: OPIC/ID: GRCOOPER, JR

APPROVED BY: EB/IFD/OIA: RJSMITH

GC: MBUTLER

EVP: DGREGG

GC:CCOLE

EB/IFD/OIA: DHSTEBBING

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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA NIACT IMMEDIATE

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E.O. 11652: N/A

TAGS: EINV

SUBJECT: FORMATION OF OIIG

ATTENTION: MARSHALL MAYS, HOTEL BOROBUDUR, ROOM 1222,  
(TEL. 357510-9) FROM COOPER

REF: STATE 19022

1. TRIED TO CALL YOU LAST NIGHT, BUT CIRCUITS WERE BUSY;  
WILL TRAY AGAIN 6:30 PM, TONIGHT, JANUARY 28, WASHINGTON TIME.

2. IN REFERENCE TO BUILDING RECORD ON DEALING WITH PRIVATE  
INSURERS, WE SENT STRONGLY WORDED LETTER LAST WEEK TO RICHTER,  
WITH COPIES TO THE OTHER LEADING COMPANIES, STRENUOUSLY  
OBJECTING TO ANY CHANGE IN TWO-YEAR INITIAL COMMITMENT. SAME  
POINTS HAVE BEEN MADE IN TELCONS WITH MEMOS FOR FILE. IN THE  
LETTER, WHICH HAS SINCE BEEN RECEIVED BY THE INSURERS, WE  
OUTLINED THE HISTORY OF THE DEVELOPMENT OF OIIG, POINTING  
OUT HOW THE ORIGINAL DRAFTS CALLED FOR THREE-YEAR COMMITMENT,  
WHICH WE RELUCTANTLY SHORTENED TO TWO YEARS WHEN IT APPEARED  
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OPIC LEGISLATION MIGHT ONLY GIVE TWO YEARS' NEW AUTHORITY.

WE EMPHASIZED THAT THE RATIONALE FOR LONGER THAN USUAL COMMITMENT WAS THE RECOGNITION THAT IF PRIVATE INSURERS WERE EVER TO BECOME ABLE TO WRITE POLITICAL RISK INVESTMENT INSURANCE ON THEIR OWN, THEY WOULD HAVE TO ADJUST TO THE LONG-TERM COMMITMENTS ESSENTIAL TO THIS TYPE OF COVERAGE.

3. NEVERTHELESS, THE LEADING INSURERS, WITH THE EXCEPTION OF PRUDENTIAL (DOLS 300,000), HAVE STEADFASTLY INSISTED ON PROVIDISION IN CONSTITUTION TO WITHDRAW ON ANY ANNIVERSARY DATE OF 90 DAYS' NOTICE, AS SET FORTH IN RICHTER LETTER (REFTTEL). THIS WAS CONFIRMED BY FIREMAN'S FUND IN TELCON LATE MONDAY. THUS, UNLESS WE CHANGE CONSTITUTION ON THIS ONE POINT, FIREMAN'S FUND, INA, AND ST. PAUL, REPRESENTING DOLS 1,400,000 OF CAPACITY, WILL NOT JOIN OIIG.

4. IT HAS BEEN MADE PERFECTLY CLEAR BY OTHER SMALLER US PARTICIPANTS THAT WITHOUT THE US LEADERS, THEY WILL NOT JOIN THE GROUP. STEPHEN MERRETT HAS ALSO STATED THAT WITHOUT THE US LEADERS, LLOYD'S WILL NOT JOIN THE GROUP.

5. WE HAVE NO CHOICE, IF WE WANT OIIG TO BE FORMED, BUT TO MODIFY THE CONSTUTION ON THIS ONE POINT. WE HAVE PREPARED TELEX ACCOMPLISHING THIS CHANGE WHICH WE CAN SEND OUT TO ALL PROSPECTIVE PARTICIPANTS IF YOU AUTHORIZE IT. YOUR AUTHORIZATION MUST BE RECEIVED JANUARY 29 IN TIME TO GET MESSAGE OUT TO INSURERS PRIOR TO JANUARY 30 CLOSING.

6. IT WOULD BE FUTILE TO ATTEMPT ANY FURTHER ARM-TWISTING OF THE THREE HOLDOUTS. I SPOKE TO ART MAYERS FOR GUIDANCE ON HANDLING RICHTER, AND HE SAID IT WOULD BE COUNTERPRODUCTIVE TO GO OVER HIS HEAD TO COX. AT FIREMAN'S FUND, I HAVE ALREADY TALKED TO DUBAIN AND BENEDICT (WHO NOW HAS MEENAGHAN'S JOB AS ASSISTANT TO THE PRESIDENT). ST. PAUL IS FOLLOWING THE LEAD OF THE OTHER TWO.

7. IN FAIRNESS TO THE LEADING INSURERS, IT SHOULD BE NOTED THAT THEY HAVE EXPRESSED CONCERN FROM THE VERY BEGINNING ABOUT BEING COMMITTED LONGER THAN THE CUSTOMARY ONE-YEAR TERM. IN A LETTER TO OPIC DATED JULY 3, 1973, MEENAGHAN OF FIREMAN'S FUND MADE THE FOLLOWING STATEMENT: QUOTE. LASTLY, AND THIS IS SOMETHING WE MIGHT DISCUSS INFORMALLY, WE OUGHT TO RE-EXAMINE UNCLASSIFIED

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THE NEED FOR A THREE-YEAR COMMITMENT BY THE PRIVATE MEMBERS OF THE NEW SYNDICATE. THE EASE WITH WHICH THE UNEARNED PREMIUM RESERVE CAN BE ASSUMED FROM AND GIVEN BACK TO OPIC ARGUES FOR AN ANNUAL RATHER THAN THREE-YEAR COMMITMENT. I AM CONFIDENT PRIVATE INDUSTRY WOULD BE WILLING TO STAY WITH THE OPIC PROGRAM EVEN IF THE FIRST YEAR OR TWO WERE UNPROFITABLE, BUT THE THREE-YEAR COMMITMENT IN ADVANCE COULD NEGATIVELY AFFECT MANY COMPANIES WHO WOULD OTHERWISE BE INTERESTED IN THE PROGRAM. UNQUOTE.

8. I HAVE REVIEWED THE TESTIMONY OF THE REPRESENTATIVES OF THE PRIVATE INSURERS BEFORE CONGRESS, AND ALSO MEMORANDA OF THE VARIOUS MEETINGS WE HAD WITH THE ADVISORY COUNCIL INSURANCE COMMITTEE, AND AT NO TIME HAVE THEY TAKEN A POSITION INCONSISTENT WITH MEENAGHAN'S STATEMENT, OR EVER ACCEPTED EVEN A TWO-YEAR COMMITMENT. WE ARE GOING TO HAVE TO ACCEPT THE FACT THAT LEGALLY THE COMPANIES WILL HAVE AN OPTION TO WITHDRAW ON ANY ANNIVERSARY DATE, BUT THAT MORALLY THEY WILL HAVE AN OBLIGATION TO STAY FOR THE THREE-YEAR TRIAL PERIOD, EVEN IF UNDERWRITING RESULTS ARE UNSATISFACTORY. THIS IS THE WAY THIS INDUSTRY OPERATES. KISSINGER

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